

WIREGRASS FOUNDATION, INC.

DECEMBER 31, 2008

FINANCIAL STATEMENTS

WIREGRASS FOUNDATION, INC.
DOTHAN, ALABAMA

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Wiregrass Foundation, Inc.
Dothan, Alabama

We have audited the accompanying statement of assets, liabilities, and net assets - income tax basis of Wiregrass Foundation, Inc. (a nonprofit organization) as of December 31, 2008, and related statements of revenues, expenses, and other changes in net assets and cash flows - income tax basis for the year then ended. These financial statements are the responsibility of the Wiregrass Foundation, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, these financial statements were prepared on the basis of accounting Wiregrass Foundation, Inc. uses for income tax purposes, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and net assets of Wiregrass Foundation, Inc. as of December 31, 2008, and its revenues, expenses, and other changes in net assets and cash flows for the year then ended, on the basis of accounting described in Note 1.

Jackson Thornton & Co. PC

Dothan, Alabama
April 14, 2009

WIREGRASS FOUNDATION, INC.
DOTHAN, ALABAMA

STATEMENT OF ASSETS, LIABILITIES, AND NET ASSETS - INCOME TAX BASIS
AS OF DECEMBER 31, 2008

ASSETS	
Cash and cash equivalents	\$ 2,674,720
Investments	75,406,281
Property and equipment (net of accumulated depreciation)	1,089,005
Excise tax receivable	9,407
Deposits	500
	<hr/>
Total assets	<u>\$79,179,913</u>
LIABILITIES AND NET ASSETS	
Accrued expenses	\$ 2,017
	<hr/>
Total liabilities	<u>2,017</u>
Net assets:	
Unrestricted	<u>79,177,896</u>
Total net assets	<u>79,177,896</u>
Total liabilities net assets	<u>\$79,179,913</u>

The accompanying notes are an integral part of these financial statements.

WIREGRASS FOUNDATION, INC.

STATEMENT OF REVENUES, EXPENSES, AND OTHER
CHANGES IN NET ASSETS - INCOME TAX BASIS
AS OF DECEMBER 31, 2008

CHANGE IN UNRESTRICTED NET ASSETS:

Revenues, gains, and net assets:	
Interest and dividend income	\$ 2,859,272
Realized gains and (losses)	(4,894,060)
Total revenues, gains, and net assets	<u>(2,034,788)</u>
Expenses and losses:	
Grants paid	3,782,963
Other program expenses	256,819
Management and general	712,791
Loss on transfer of fixed assets	1,920
Investment expenses	<u>648,053</u>
Total expenses and losses	<u>5,402,546</u>
DECREASE IN UNRESTRICTED NET ASSETS	(7,437,334)
UNREALIZED INVESTMENT GAINS AND LOSSES	(19,244,465)
NET ASSETS AT BEGINNING OF YEAR	<u>105,859,695</u>
NET ASSETS AT END OF YEAR	<u>\$ 79,177,896</u>

The accompanying notes are an integral part of these financial statements.

WIREGRASS FOUNDATION, INC.

STATEMENT OF CASH FLOWS - INCOME TAX BASIS
AS OF DECEMBER 31, 2008

CASH FLOWS FROM OPERATING ACTIVITIES:	
Decrease in net assets	\$ (7,437,334)
Adjustments to reconcile increase in net assets to net cash from operating activities:	
Depreciation	13,346
Realized losses	4,894,060
Loss on transfer of fixed assets	1,920
(Increase) decrease in operating assets and increase (decrease) in operating liabilities:	
Accounts payable and accrued expenses	<u>(41,232)</u>
Net cash used for operating activities	<u>(2,569,240)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of property and equipment	(564,423)
Purchase of investments	(148,510,135)
Proceeds from the sale and maturity of investments	<u>151,744,947</u>
Net cash from investing activities	<u>2,670,389</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	101,149
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>2,573,571</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 2,674,720</u></u>

The accompanying notes are an integral part of these financial statements.

WIREGRASS FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

This summary of significant accounting policies of the Wiregrass Foundation (Foundation) is presented to assist in understanding the Foundation's financial statements. The financial statements and notes are representations of the Foundation's management, who is responsible for their integrity and objectivity. These accounting policies conform to accounting principles consistent with the income tax basis of accounting and have been consistently applied in the preparation of the financial statements.

Nature of operations - The Foundation is a private, non-operating foundation. The Foundation's purpose is to fund programs that will have a significant impact on the quality of health, education, and quality of life in Dothan, Alabama and the surrounding counties. The Foundation accomplishes this purpose by providing grants to other non-profit agencies that demonstrate a need for funding to provide programs that help meet these goals.

Basis of accounting - The financial statements of the Foundation have been prepared on the income tax basis of accounting. This accrual basis reflects the financial position of the Foundation at December 31, 2008, and the changes in its net assets and its cash flows for the year then ended as they are reported on their 2008 Form 990-PF. In accordance with this basis of accounting, unrealized gains and losses from investments are accounted for as changes in net assets, not as revenue increases or decreases. Also, grants approved but not paid at year end are not recorded as expenses or liabilities.

The significant accounting policies followed by the Foundation are summarized as follows:

Use of estimates - The preparation of financial statements in conformity with the income tax basis of accounting requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Concentrations - The Foundation is located in Dothan, Alabama and has identified its grant making focus to be organizations that seek to improve health, education, and quality of life for the population residing within a 50 mile radius of Dothan, Alabama.

The assets of the Foundation are concentrated in cash and investments. Accordingly, its income is dependent on the economic growth and stability of the financial market. Deposits in excess of the FDIC insurance coverage limit are common.

WIREGRASS FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

Financial statement presentation - Financial statement presentation also follows the requirements of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets - unrestricted, temporarily restricted, and permanently restricted. There were no temporarily restricted or permanently restricted net assets as of December 31, 2008.

Cash and cash equivalents - For cash flow statement purposes, the Foundation considers all short-term, highly liquid investments to be cash equivalents that are readily convertible to known amounts of cash, and so near their maturities that they present insignificant risk of changes in value because of changes in interest rates. Cash and cash equivalents include only operating accounts.

Investments - Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair value in the Foundation's financial statements. Unrealized gains and losses are recorded as changes in unrestricted net assets. Investment income composed of interest, dividends, and gain/losses from the sale of investments is recorded as revenue in the Foundation's financial statements.

Other investments are also reported at fair value. Other investments include partnership interests and certain equity securities that do not have a readily determinable fair value. The fair value of limited partnership investments (alternative investments) are estimated by management. Management develops its estimate based on its understanding of the nature of the underlying investments, the portfolio strategy of the alternative investments, and the method and significant assumptions used by the fund manager to value the underlying investments.

Property and equipment - Construction in progress, furniture and fixtures, equipment, computer software, and leasehold improvements are carried at historical cost and are depreciated principally under the straight-line method over the estimated useful lives of the respective assets. Major renewals and improvements are capitalized while normal repairs and maintenance are expensed in the period incurred.

WIREGRASS FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

Property and equipment consists of the following:

Construction in progress	\$ 179,018
Furniture and fixtures	28,934
Equipment	15,603
Computer software	13,904
Leasehold improvements	11,831
Accumulated depreciation	<u>(32,381)</u>
	216,909
Land	<u>872,096</u>
 Total property and equipment	 <u>\$ 1,089,005</u>

Depreciation expense for the year ended December 31, 2008 amounted to \$13,346.

Income taxes - The Foundation is a not-for-profit organization that is exempt from federal and state income taxes under the provisions of Internal Revenue Code Section 501(c)(3) and applicable state regulations. The Foundation is classified by the Internal Revenue Service as a non-operating, private foundation. Excise taxes on net investment income are paid by the Foundation as a component of the annual Form 990-PF tax filing. The amount of excise tax on net investment income for 2008 was \$21,968. The Foundation had no unrelated business income subject to income tax for the year. With few exceptions, the Foundation is no longer subject to U.S. federal, state, or local income tax examinations by tax authorities for years before 2005.

NOTE 2 - INVESTMENTS:

Investments consist of the following at December 31, 2008:

	<u>FAIR VALUE</u>
Cash and cash equivalents	\$ 2,364,929
Fixed income securities	5,435,358
Limited partnerships	8,440,097
Mutual funds	19,941,676
Marketable equity securities	<u>39,224,221</u>
 Totals	 <u>\$ 75,406,281</u>

WIREGRASS FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE 2 - INVESTMENTS: (continued)

As discussed in Note 1, the Foundation carries all investments in equity securities with readily determinable fair values and all investments in debt securities at their fair values. The estimated fair values of bonds, stocks, and mutual funds are generally based on quoted market prices.

The Foundation invests in Limited Partnerships, which are commonly known as alternative investments. These alternative investments make indirect and direct investments in complex financial instruments whose value is derived from an underlying security, commodity, or asset. Examples of these types of financial instruments include, but are not limited to futures and forwards contracts, options, and securities sold, not yet purchased, which are all intended to hedge against changes in the market value of investments.

These investments may contain elements of both credit and market risk. Such risks include, but are not limited to, limited liquidity, need for direct oversight, dependence on key individuals, emphasis on speculative investments, and transparency of portfolio composition. Because alternative investments are not readily marketable, their estimated value is subject to some degree of uncertainty and therefore may differ from the value that would have been used had a ready market for such investments existed.

The Financial Accounting Standards Board's SFAS No 157, *Fair Value Measurements*, defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The Foundation has implemented this standard as of and for the year ended December 31, 2008.

WIREGRASS FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE 2 - INVESTMENTS: (continued)

The Foundation determines, for disclosure purposes, the fair value of its investments in marketable securities and limited partnerships through application of SFAS No. 157. Information related to the Foundation's assets measured at fair value on a recurring basis at December 31, 2008 are as follows:

	FAIR VALUE	QUOTED PRICES		
		IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
Cash and cash equivalents	\$ 2,364,929	\$ 2,364,929		
Fixed income securities	5,435,358	5,435,358		
Limited partnerships	8,440,097			\$ 8,440,097
Mutual funds	19,941,676	19,941,676		
Marketable equity securities	39,224,221	39,224,221		
Total assets	<u>\$75,406,281</u>	<u>\$ 66,966,184</u>	<u>\$ -</u>	<u>\$ 8,440,097</u>

Fair values for the investment in cash and cash equivalents, fixed income securities, mutual funds, and marketable securities are determined by reference to quoted market prices and other relevant information generated by market transactions. Fair values for the investment in limited partnerships are determined by reference to the net assets values of the funds and the nature and duration of the restrictions on redemption.

Assets measured at fair value on a recurring basis using significant unobservable inputs (level 3 inputs) are as follows:

Limited partnerships:

January 1, 2008

Purchases, sales, issuances, and settlements (net)	\$ 10,500,000
Net unrealized gain/(loss) on interests in limited partnerships	<u>(2,059,903)</u>

December 31, 2008

\$ 8,440,097

WIREGRASS FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE 3 - RETIREMENT PLAN:

The Foundation has a profit sharing plan that covers all employees after meeting certain eligibility requirements. Contributions to the plan are at the discretion of the Board of Directors. During 2008, contributions to the plan were \$42,076.

NOTE 4 - CONCENTRATIONS OF CASH AND CREDIT RISK:

The Foundation maintains its cash balances in certain statewide bank and brokerage firm accounts. These cash balances are insured under provisions of the Federal Deposit Insurance Corporation (FDIC) and Security Investor Protection Corporation (SIPC). The balances generally exceed the insured limits. The Foundation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

NOTE 5 - OPERATING LEASE COMMITMENT:

As of May 1, 2005, the Foundation entered into a five-year operating lease for its office facility. The lease requires rent of \$18,000 annually. The lease grants the Foundation the right to two five-year options at the end of the initial term. The Foundation also leases certain equipment under a monthly operating lease. Rent expense for 2008 as a result of all operating leases was \$21,414.

Future minimum lease payments are as follows:

Year ending December 31,	
2009	\$ 18,000
2010	<u>6,000</u>
	<u>\$ 24,000</u>

NOTE 6 - GRANTS PAYABLE:

As discussed in Note 1, the Foundation's financial statements are prepared on the income tax basis of accounting. Accordingly, grants that have been approved for payment but not paid at year end are not recorded. At December 31, 2008, the amount of grants that were approved for future payment totaled \$4,825,072.

NOTE 7 - SUBSEQUENT EVENT:

As discussed in Note 1, the Foundation's investments are reported at fair value. Market values in the investment markets have been highly volatile since December 31, 2008. As a result, the fair value of the Foundation's investment portfolio subsequent to year-end is lower than the amounts reported at December 31, 2008.

WIREGRASS FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE 8 - COMMITMENTS:

During 2008, the Foundation entered into a contract to construct a new office building. The contract amount is approximately \$1,100,000.

NOTE 9 - ENDOWMENT:

In August 2008, the FASB issued FASB Staff Position No. 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*. The Staff Position provides guidance and requires additional disclosures related to donor-restricted and board designated endowment funds. The Foundation has implemented the provisions of the Staff Position as of and for the year ended December 31, 2008.

The Foundation's endowment consists of approximately 13 individual funds established for a variety of purposes. Its endowment includes only funds designated by the Board of Directors to function as endowments. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor imposed restrictions. There are no net assets with donor imposed restrictions and therefore all net assets are classified as unrestricted.

Changes in Endowment Net Assets for the Year Ended December 31, 2008:

	<u>UNRESTRICTED</u>
Endowment net assets, beginning of year	\$ 102,779,618
Investment return:	
Investment income	2,859,272
Net depreciation (realized and unrealized)	<u>(24,138,525)</u>
Total investment return	<u>(21,279,253)</u>
Appropriation of endowment assets for expenditure	(6,094,084)
Endowment nets assets, end of year	<u>\$ 75,406,281</u>

WIREGRASS FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE 9 - ENDOWMENT: (continued)

Return Objectives and Risk Parameters - The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to significantly contribute to the spending policy of 5% per annum while seeking to maintain the purchasing power of the endowment assets. Endowment assets include board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to assume moderate level of investment risk while producing results that exceed the price and yield results of the following benchmarks as applicable: S&P 500 Stock Index, Russell 2500 Stock Index, Morgan Stanley Capital International Europe, Australia, and Far East International Stock Index, Merrill Lynch Broad Market Bond Index, Wilshire Real Estate Securities Index, and HFRI Fund of Funds Composite. The Foundation expects its endowment funds, over time, to provide an average rate of return of approximately 5.5 percent annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives - To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Objectives Relate to Spending Policy - As a private foundation, the Foundation is required to distribute annually a minimum amount of its funds, equal to approximately 5% of the fair value of the Foundation's non-charitable use of assets as of the end of the calendar year preceding the fiscal year in which the distribution is planned. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow at an average of one half of one percent annually. This is consistent with the Foundation's objective to maintain the purchasing power of the board-designated endowment assets as well as to provide additional real growth through investment return.



DOTHAN, ALABAMA

Alabama

Montgomery

Prattville

Wetumpka

Tennessee

Murfreesboro

AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

The Board of Directors
Wiregrass Foundation, Inc.
Dothan, Alabama

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on page 11 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Jackson Thornton & Co. PC

Dothan, Alabama
April 14, 2009

WIREGRASS FOUNDATION, INC.

STATEMENT OF MANAGEMENT AND GENERAL EXPENSES
INCOME TAX BASIS
AS OF DECEMBER 31, 2008

Accounting	\$ 52,483
Auto expense	1,858
Bank charges	325
Board retreat expense	18,256
Gifts	4,063
Cleaning expense	3,575
Contract labor	23,982
Computer expense	1,371
Consulting	25,668
Depreciation	13,346
Directors' fees	45,000
Dues and subscriptions	12,740
Continuing education	1,141
Insurance	24,260
Legal	5,551
Meals and entertainment	2,567
Meeting expense	26,623
Miscellaneous expense	416
Pest control	466
Postage	1,457
Printing	5,916
Retirement contribution	42,076
Rent	21,414
Repairs and maintenance	4,371
Salaries	304,103
Office supplies	7,763
Payroll taxes	18,932
Property taxes	4,467
Excise taxes	21,561
Other taxes	15
Telephone	4,707
Travel expense	8,303
Utilities	4,015
	<hr/>
Total management and general expenses	<u>\$712,791</u>

The accompanying notes are an integral part of these financial statements.